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FINANCIAL INSTITUTIONS FORUM

A Bi-Monthly Bulletin

INSURANCE IN ETHIOPIA

Some observers trace the history of insurance in Ethiopia as having its roots in traditional forms of social security known in the vernacular as *Iqub* and *Idir*.

Even though these two forms of financial security arrangements do offer surety in the way of savings and at times of stress and trial, they have no relation whatsoever with the workings of insurance as it is known in the modern world.

The modern concept of insurance was introduced to Ethiopia at the turn of the twentieth century when the then Bank of Abyssinia, the first banking institution in Ethiopia, started to write Fire and Marine business as an agent to a foreign company. Gradually, but slowly, more foreign insurance firms appointed agents and performed insurance transactions in Ethiopia. These were given powers of attorney to secure insurance business, issue cover and settle claims on behalf of their principals abroad. In the hey-days of these operations the agents were expatriates residing in Ethiopia and with the passage of time these traders opened full-fledged branch offices of parent companies to meet the demands of this growing and lucrative business sector. Soon further expansion of business called for the establishment of insurance companies in the country but with significant foreign participation.

The first known agent on record is an Austrian national who represented Balois Fire Insurance Company as early as 1923. In 1929

Balois settled the first fire insurance claim in Ethiopia. Up until 1951 brokers, agents and branch representative offices of foreign insurance companies dominated this business sector. In 1951 a new landmark was set with the founding of the first Ethiopian insurance company — Imperial Insurance Company.

During the following two decades twelve more companies were established and operated with fierce competition without any regulating legal mechanism to control their affairs. It was only in 1970 that Insurance Proclamation No.281 was promulgated, setting long overdue minimum requirements regarding, among other things, organisation and their capital and ownership structures.

Early in 1975 Proclamation No.26 of March 11th which provided for the nationalisation of all financial institutions including insurance firms came into effect. Following nationalisation the Ethiopian Insurance Corporation (EIC) was established by Proclamation No.68 of 1975 to operate all insurance business in Ethiopia.

Since it came into being the Ethiopian Insurance Corporation has established a network of 7 branch offices throughout the country. The EIC issues cover for fire, burglary, marine, motor, medical, aviation, personal accident, public liability, employers' liability, cash and valuables. The EIC also issues life assurance policy.

The Method of valuation of the SDR is determined by the Fund. Since July 1974, the SDR has been valued on the basis of market exchange rates for a basket of currencies. The present basket consists of the currencies of the 16 members with the largest share in world exports. Each business day, the Fund publishes the exchange rates of a wide range of currencies in terms of the SDR, and these are reported by a number of daily newspapers and wire services as well as in the Fund's twice-monthly IMF Survey and in International Financial Statistics, its monthly statistical publication.

A participant may use SDRs, without limitation, in a wide and increasing variety of ways by agreement with another participant - for example, to obtain currency in a spot transaction, for the settlement of a financial obligation as a loan, as security for a loan, as a swap against currency, or in a forward exchange operation. In addition, if a participant has a balance of payments need, it can use its SDRs to obtain usable currency from another participant designated by the Fund. A participant may also use SDRs to make payments to the Fund, such as repurchases, and the Fund itself may transfer SDRs to a participant for various purposes, including transfers of SDRs instead of currency to a member using the Fund's resources.

A participant with holdings of SDRs in excess of its allocations earns net interest on the excess, and a participant with holdings below its allocations pays charges at the same rate on its net use of SDRs. The interest rate on the SDR is related to short-term money market interest rates and is reviewed quarterly.

A participant may use all of its SDR holdings and is not obliged to reacquire SDRs according to any fixed schedule. However, under the rules for reconstitution of SDR holdings, a participant is required to maintain a minimum average level, presently 15 per cent of its SDR allocations.

The SDR is the unit of account for all purposes of the Fund. Outside the Fund it is widely used as a unit of account in private contracts, such as SDR-denominated deposits with commercial banks, as well as in international and regional organizations, including the African Development Bank, The Arab Monetary Fund, the Asian clearing Union, the Economic Community of West African States, the Islamic Development Bank, and the Nordic Investment Bank.

A number of the Fund's member countries have decided to peg their currency to the SDR. The value of the currency is fixed in terms of the SDR, then set in terms of other currencies by reference to their SDR value as calculated daily by the Fund.

FROM OTHER PAPERS



AID FRAUD

Rotten food had been deliberately shipped as aid to the Third World countries by some European firms. This was confirmed at a European Development Ministers' meeting in Luxembourg on 28 April by Claude Cheysson, European Commissioner for Development Policy.

European Commission investigations uncovered the frauds after Third World complaints about the quality of food aid. It emerged that food decay had sometimes occurred en route to the Third World, and more seriously, that in at least three cases food had been unfit for human consumption from the outset.

Claude Cheysson expressed horror at the fact that some firms had made a large profit by selling to to EEC rotten food for those who were starving in the Third World. Cheysson warned that the firms found guilty of "such scandalous, revolting and unacceptable" behaviour would be put on a blacklist excluding them from participating for tenders for food aid sales.

Extracted from an article
SOUTH (July 1981)



I RECKON THEY'RE HARD TO SWALLOW
BUT THEY WILL SOLVE YOUR
PROBLEMS IN A SHORT TIME



How Coffee was discovered

It was actually discovered by the camels of Ras Tatlalabula, an Ethiopian prince in the 13th century A.D., who used occasionally to find his dromedaries in a very frisky mood, always after they had nibbled the berries from a particular shrub. In order not to let his own vitality lag behind that of his dromedaries the prince also tried to go on a berry trip, which, however, was unsuccessful owing to the better taste of the raw coffee. So, in his disappointment, he just threw it into the fire - and behold! a delicate fragrance, a tempting aroma reached Tatlalabuna's nose: the first roasted coffee was ready.

SCALA

No. 1/1980

The flood of information

The Scientist who fails to keep abreast of the discoveries of scientist anywhere in the world who share his special field runs the risk that results of his work may be known already. If, on the other hand, he attempts to read and evaluate all the publications in his field, he will have no time left for research of his own.

An illustration of the extent to which the flood of information has increased in recent years is the fact that in 1960 "Chemical Abstract" the most important journal of its kind presented summaries of 145,000 scientific articles and patent specifications and that twenty years later the corresponding number was already in excess of half a million of which four fifths were summaries of patent specifications. Hence a new scientific article in the field of chemistry is published more or less one and half minutes a pattern covering an invention in that field or in a related one more or less every five minutes.

BAYER REPORT

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